

1 AN ACT in relation to taxes.

2 Be it enacted by the People of the State of Illinois,  
3 represented in the General Assembly:

4 Section 5. The Illinois Income Tax Act is amended by  
5 changing Section 2-203 as follows:

6 (35 ILCS 5/203) (from Ch. 120, par. 2-203)  
7 Sec. 203. Base income defined.

8 (a) Individuals.

9 (1) In general. In the case of an individual, base  
10 income means an amount equal to the taxpayer's adjusted  
11 gross income for the taxable year as modified by  
12 paragraph (2).

13 (2) Modifications. The adjusted gross income  
14 referred to in paragraph (1) shall be modified by adding  
15 thereto the sum of the following amounts:

16 (A) An amount equal to all amounts paid or  
17 accrued to the taxpayer as interest or dividends  
18 during the taxable year to the extent excluded from  
19 gross income in the computation of adjusted gross  
20 income, except stock dividends of qualified public  
21 utilities described in Section 305(e) of the  
22 Internal Revenue Code;

23 (B) An amount equal to the amount of tax  
24 imposed by this Act to the extent deducted from  
25 gross income in the computation of adjusted gross  
26 income for the taxable year;

27 (C) An amount equal to the amount received  
28 during the taxable year as a recovery or refund of  
29 real property taxes paid with respect to the  
30 taxpayer's principal residence under the Revenue Act  
31 of 1939 and for which a deduction was previously

1 taken under subparagraph (L) of this paragraph (2)  
2 prior to July 1, 1991, the retrospective application  
3 date of Article 4 of Public Act 87-17. In the case  
4 of multi-unit or multi-use structures and farm  
5 dwellings, the taxes on the taxpayer's principal  
6 residence shall be that portion of the total taxes  
7 for the entire property which is attributable to  
8 such principal residence;

9 (D) An amount equal to the amount of the  
10 capital gain deduction allowable under the Internal  
11 Revenue Code, to the extent deducted from gross  
12 income in the computation of adjusted gross income;

13 (D-5) An amount, to the extent not included in  
14 adjusted gross income, equal to the amount of money  
15 withdrawn by the taxpayer in the taxable year from a  
16 medical care savings account and the interest earned  
17 on the account in the taxable year of a withdrawal  
18 pursuant to subsection (b) of Section 20 of the  
19 Medical Care Savings Account Act or subsection (b)  
20 of Section 20 of the Medical Care Savings Account  
21 Act of 2000; and

22 (D-10) For taxable years ending after December  
23 31, 1997, an amount equal to any eligible  
24 remediation costs that the individual deducted in  
25 computing adjusted gross income and for which the  
26 individual claims a credit under subsection (1) of  
27 Section 201;

28 and by deducting from the total so obtained the sum of  
29 the following amounts:

30 (E) For taxable years ending before December  
31 31, 2001, any amount included in such total in  
32 respect of any compensation (including but not  
33 limited to any compensation paid or accrued to a  
34 serviceman while a prisoner of war or missing in

1           action) paid to a resident by reason of being on  
2           active duty in the Armed Forces of the United States  
3           and in respect of any compensation paid or accrued  
4           to a resident who as a governmental employee was a  
5           prisoner of war or missing in action, and in respect  
6           of any compensation paid to a resident in 1971 or  
7           thereafter for annual training performed pursuant to  
8           Sections 502 and 503, Title 32, United States Code  
9           as a member of the Illinois National Guard. For  
10          taxable years ending on or after December 31, 2001,  
11          any amount included in such total in respect of any  
12          compensation (including but not limited to any  
13          compensation paid or accrued to a serviceman while a  
14          prisoner of war or missing in action) paid to a  
15          resident by reason of being a member of any  
16          component of the Armed Forces of the United States  
17          and in respect of any compensation paid or accrued  
18          to a resident who as a governmental employee was a  
19          prisoner of war or missing in action, and in respect  
20          of any compensation paid to a resident in 2001 or  
21          thereafter by reason of being a member of the  
22          Illinois National Guard. The provisions of this  
23          amendatory Act of the 92nd General Assembly are  
24          exempt from the provisions of Section 250;

25                 (F) An amount equal to all amounts included in  
26                 such total pursuant to the provisions of Sections  
27                 402(a), 402(c), 403(a), 403(b), 406(a), 407(a), and  
28                 408 of the Internal Revenue Code, or included in  
29                 such total as distributions under the provisions of  
30                 any retirement or disability plan for employees of  
31                 any governmental agency or unit, or retirement  
32                 payments to retired partners, which payments are  
33                 excluded in computing net earnings from self  
34                 employment by Section 1402 of the Internal Revenue

1 Code and regulations adopted pursuant thereto;

2 (G) The valuation limitation amount;

3 (H) An amount equal to the amount of any tax  
4 imposed by this Act which was refunded to the  
5 taxpayer and included in such total for the taxable  
6 year;

7 (I) An amount equal to all amounts included in  
8 such total pursuant to the provisions of Section 111  
9 of the Internal Revenue Code as a recovery of items  
10 previously deducted from adjusted gross income in  
11 the computation of taxable income;

12 (J) An amount equal to those dividends  
13 included in such total which were paid by a  
14 corporation which conducts business operations in an  
15 Enterprise Zone or zones created under the Illinois  
16 Enterprise Zone Act, and conducts substantially all  
17 of its operations in an Enterprise Zone or zones;

18 (K) An amount equal to those dividends  
19 included in such total that were paid by a  
20 corporation that conducts business operations in a  
21 federally designated Foreign Trade Zone or Sub-Zone  
22 and that is designated a High Impact Business  
23 located in Illinois; provided that dividends  
24 eligible for the deduction provided in subparagraph  
25 (J) of paragraph (2) of this subsection shall not be  
26 eligible for the deduction provided under this  
27 subparagraph (K);

28 (L) For taxable years ending after December  
29 31, 1983, an amount equal to all social security  
30 benefits and railroad retirement benefits included  
31 in such total pursuant to Sections 72(r) and 86 of  
32 the Internal Revenue Code;

33 (M) With the exception of any amounts  
34 subtracted under subparagraph (N), an amount equal

1 to the sum of all amounts disallowed as deductions  
2 by (i) Sections 171(a) (2), and 265(2) of the  
3 Internal Revenue Code of 1954, as now or hereafter  
4 amended, and all amounts of expenses allocable to  
5 interest and disallowed as deductions by Section  
6 265(1) of the Internal Revenue Code of 1954, as now  
7 or hereafter amended; and (ii) for taxable years  
8 ending on or after August 13, 1999, Sections  
9 171(a)(2), 265, 280C, and 832(b)(5)(B)(i) of the  
10 Internal Revenue Code; the provisions of this  
11 subparagraph are exempt from the provisions of  
12 Section 250;

13 (N) An amount equal to all amounts included in  
14 such total which are exempt from taxation by this  
15 State either by reason of its statutes or  
16 Constitution or by reason of the Constitution,  
17 treaties or statutes of the United States; provided  
18 that, in the case of any statute of this State that  
19 exempts income derived from bonds or other  
20 obligations from the tax imposed under this Act, the  
21 amount exempted shall be the interest net of bond  
22 premium amortization;

23 (O) An amount equal to any contribution made  
24 to a job training project established pursuant to  
25 the Tax Increment Allocation Redevelopment Act;

26 (P) An amount equal to the amount of the  
27 deduction used to compute the federal income tax  
28 credit for restoration of substantial amounts held  
29 under claim of right for the taxable year pursuant  
30 to Section 1341 of the Internal Revenue Code of  
31 1986;

32 (Q) An amount equal to any amounts included in  
33 such total, received by the taxpayer as an  
34 acceleration in the payment of life, endowment or

1 annuity benefits in advance of the time they would  
2 otherwise be payable as an indemnity for a terminal  
3 illness;

4 (R) An amount equal to the amount of any  
5 federal or State bonus paid to veterans of the  
6 Persian Gulf War;

7 (S) An amount, to the extent included in  
8 adjusted gross income, equal to the amount of a  
9 contribution made in the taxable year on behalf of  
10 the taxpayer to a medical care savings account  
11 established under the Medical Care Savings Account  
12 Act or the Medical Care Savings Account Act of 2000  
13 to the extent the contribution is accepted by the  
14 account administrator as provided in that Act;

15 (T) An amount, to the extent included in  
16 adjusted gross income, equal to the amount of  
17 interest earned in the taxable year on a medical  
18 care savings account established under the Medical  
19 Care Savings Account Act or the Medical Care Savings  
20 Account Act of 2000 on behalf of the taxpayer, other  
21 than interest added pursuant to item (D-5) of this  
22 paragraph (2);

23 (U) For one taxable year beginning on or after  
24 January 1, 1994, an amount equal to the total amount  
25 of tax imposed and paid under subsections (a) and  
26 (b) of Section 201 of this Act on grant amounts  
27 received by the taxpayer under the Nursing Home  
28 Grant Assistance Act during the taxpayer's taxable  
29 years 1992 and 1993;

30 (V) Beginning with tax years ending on or  
31 after December 31, 1995 and ending with tax years  
32 ending on or before December 31, 2004, an amount  
33 equal to the amount paid by a taxpayer who is a  
34 self-employed taxpayer, a partner of a partnership,

1 or a shareholder in a Subchapter S corporation for  
2 health insurance or long-term care insurance for  
3 that taxpayer or that taxpayer's spouse or  
4 dependents, to the extent that the amount paid for  
5 that health insurance or long-term care insurance  
6 may be deducted under Section 213 of the Internal  
7 Revenue Code of 1986, has not been deducted on the  
8 federal income tax return of the taxpayer, and does  
9 not exceed the taxable income attributable to that  
10 taxpayer's income, self-employment income, or  
11 Subchapter S corporation income; except that no  
12 deduction shall be allowed under this item (V) if  
13 the taxpayer is eligible to participate in any  
14 health insurance or long-term care insurance plan of  
15 an employer of the taxpayer or the taxpayer's  
16 spouse. The amount of the health insurance and  
17 long-term care insurance subtracted under this item  
18 (V) shall be determined by multiplying total health  
19 insurance and long-term care insurance premiums paid  
20 by the taxpayer times a number that represents the  
21 fractional percentage of eligible medical expenses  
22 under Section 213 of the Internal Revenue Code of  
23 1986 not actually deducted on the taxpayer's federal  
24 income tax return;

25 (W) For taxable years beginning on or after  
26 January 1, 1998, all amounts included in the  
27 taxpayer's federal gross income in the taxable year  
28 from amounts converted from a regular IRA to a Roth  
29 IRA. This paragraph is exempt from the provisions of  
30 Section 250;

31 (X) For taxable year 1999 and thereafter, an  
32 amount equal to the amount of any (i) distributions,  
33 to the extent includible in gross income for federal  
34 income tax purposes, made to the taxpayer because of

1 his or her status as a victim of persecution for  
2 racial or religious reasons by Nazi Germany or any  
3 other Axis regime or as an heir of the victim and  
4 (ii) items of income, to the extent includible in  
5 gross income for federal income tax purposes,  
6 attributable to, derived from or in any way related  
7 to assets stolen from, hidden from, or otherwise  
8 lost to a victim of persecution for racial or  
9 religious reasons by Nazi Germany or any other Axis  
10 regime immediately prior to, during, and immediately  
11 after World War II, including, but not limited to,  
12 interest on the proceeds receivable as insurance  
13 under policies issued to a victim of persecution for  
14 racial or religious reasons by Nazi Germany or any  
15 other Axis regime by European insurance companies  
16 immediately prior to and during World War II;  
17 provided, however, this subtraction from federal  
18 adjusted gross income does not apply to assets  
19 acquired with such assets or with the proceeds from  
20 the sale of such assets; provided, further, this  
21 paragraph shall only apply to a taxpayer who was the  
22 first recipient of such assets after their recovery  
23 and who is a victim of persecution for racial or  
24 religious reasons by Nazi Germany or any other Axis  
25 regime or as an heir of the victim. The amount of  
26 and the eligibility for any public assistance,  
27 benefit, or similar entitlement is not affected by  
28 the inclusion of items (i) and (ii) of this  
29 paragraph in gross income for federal income tax  
30 purposes. This paragraph is exempt from the  
31 provisions of Section 250; and

32 (Y) For taxable years beginning on or after  
33 January 1, 2002, moneys contributed in the taxable  
34 year to a College Savings Pool account under Section

1 16.5 of the State Treasurer Act. This subparagraph  
2 (Y) is exempt from the provisions of Section 250;  
3 and

4 (Z) For taxable years ending on or after  
5 December 31, 2002, \$1,000 per child or the amount of  
6 the taxpayer's adjusted gross income, whichever is  
7 less, for a married couple filing a joint return who  
8 have a minor child or children, if one parent is a  
9 full-time stay-at-home parent responsible for the  
10 care of the children. A deduction under this  
11 subparagraph in excess of the taxpayer's adjusted  
12 gross income may not be carried forward or back.  
13 This subparagraph is exempt from the provisions of  
14 Section 250.

15 (b) Corporations.

16 (1) In general. In the case of a corporation, base  
17 income means an amount equal to the taxpayer's taxable  
18 income for the taxable year as modified by paragraph (2).

19 (2) Modifications. The taxable income referred to  
20 in paragraph (1) shall be modified by adding thereto the  
21 sum of the following amounts:

22 (A) An amount equal to all amounts paid or  
23 accrued to the taxpayer as interest and all  
24 distributions received from regulated investment  
25 companies during the taxable year to the extent  
26 excluded from gross income in the computation of  
27 taxable income;

28 (B) An amount equal to the amount of tax  
29 imposed by this Act to the extent deducted from  
30 gross income in the computation of taxable income  
31 for the taxable year;

32 (C) In the case of a regulated investment  
33 company, an amount equal to the excess of (i) the  
34 net long-term capital gain for the taxable year,

1 over (ii) the amount of the capital gain dividends  
2 designated as such in accordance with Section  
3 852(b)(3)(C) of the Internal Revenue Code and any  
4 amount designated under Section 852(b)(3)(D) of the  
5 Internal Revenue Code, attributable to the taxable  
6 year (this amendatory Act of 1995 (Public Act 89-89)  
7 is declarative of existing law and is not a new  
8 enactment);

9 (D) The amount of any net operating loss  
10 deduction taken in arriving at taxable income, other  
11 than a net operating loss carried forward from a  
12 taxable year ending prior to December 31, 1986;

13 (E) For taxable years in which a net operating  
14 loss carryback or carryforward from a taxable year  
15 ending prior to December 31, 1986 is an element of  
16 taxable income under paragraph (1) of subsection (e)  
17 or subparagraph (E) of paragraph (2) of subsection  
18 (e), the amount by which addition modifications  
19 other than those provided by this subparagraph (E)  
20 exceeded subtraction modifications in such earlier  
21 taxable year, with the following limitations applied  
22 in the order that they are listed:

23 (i) the addition modification relating to  
24 the net operating loss carried back or forward  
25 to the taxable year from any taxable year  
26 ending prior to December 31, 1986 shall be  
27 reduced by the amount of addition modification  
28 under this subparagraph (E) which related to  
29 that net operating loss and which was taken  
30 into account in calculating the base income of  
31 an earlier taxable year, and

32 (ii) the addition modification relating  
33 to the net operating loss carried back or  
34 forward to the taxable year from any taxable

1 year ending prior to December 31, 1986 shall  
2 not exceed the amount of such carryback or  
3 carryforward;

4 For taxable years in which there is a net  
5 operating loss carryback or carryforward from more  
6 than one other taxable year ending prior to December  
7 31, 1986, the addition modification provided in this  
8 subparagraph (E) shall be the sum of the amounts  
9 computed independently under the preceding  
10 provisions of this subparagraph (E) for each such  
11 taxable year; and

12 (E-5) For taxable years ending after December  
13 31, 1997, an amount equal to any eligible  
14 remediation costs that the corporation deducted in  
15 computing adjusted gross income and for which the  
16 corporation claims a credit under subsection (l) of  
17 Section 201;

18 and by deducting from the total so obtained the sum of  
19 the following amounts:

20 (F) An amount equal to the amount of any tax  
21 imposed by this Act which was refunded to the  
22 taxpayer and included in such total for the taxable  
23 year;

24 (G) An amount equal to any amount included in  
25 such total under Section 78 of the Internal Revenue  
26 Code;

27 (H) In the case of a regulated investment  
28 company, an amount equal to the amount of exempt  
29 interest dividends as defined in subsection (b) (5)  
30 of Section 852 of the Internal Revenue Code, paid to  
31 shareholders for the taxable year;

32 (I) With the exception of any amounts  
33 subtracted under subparagraph (J), an amount equal  
34 to the sum of all amounts disallowed as deductions

1 by (i) Sections 171(a) (2), and 265(a)(2) and  
2 amounts disallowed as interest expense by Section  
3 291(a)(3) of the Internal Revenue Code, as now or  
4 hereafter amended, and all amounts of expenses  
5 allocable to interest and disallowed as deductions  
6 by Section 265(a)(1) of the Internal Revenue Code,  
7 as now or hereafter amended; and (ii) for taxable  
8 years ending on or after August 13, 1999, Sections  
9 171(a)(2), 265, 280C, 291(a)(3), and 832(b)(5)(B)(i)  
10 of the Internal Revenue Code; the provisions of this  
11 subparagraph are exempt from the provisions of  
12 Section 250;

13 (J) An amount equal to all amounts included in  
14 such total which are exempt from taxation by this  
15 State either by reason of its statutes or  
16 Constitution or by reason of the Constitution,  
17 treaties or statutes of the United States; provided  
18 that, in the case of any statute of this State that  
19 exempts income derived from bonds or other  
20 obligations from the tax imposed under this Act, the  
21 amount exempted shall be the interest net of bond  
22 premium amortization;

23 (K) An amount equal to those dividends  
24 included in such total which were paid by a  
25 corporation which conducts business operations in an  
26 Enterprise Zone or zones created under the Illinois  
27 Enterprise Zone Act and conducts substantially all  
28 of its operations in an Enterprise Zone or zones;

29 (L) An amount equal to those dividends  
30 included in such total that were paid by a  
31 corporation that conducts business operations in a  
32 federally designated Foreign Trade Zone or Sub-Zone  
33 and that is designated a High Impact Business  
34 located in Illinois; provided that dividends

1 eligible for the deduction provided in subparagraph  
2 (K) of paragraph 2 of this subsection shall not be  
3 eligible for the deduction provided under this  
4 subparagraph (L);

5 (M) For any taxpayer that is a financial  
6 organization within the meaning of Section 304(c) of  
7 this Act, an amount included in such total as  
8 interest income from a loan or loans made by such  
9 taxpayer to a borrower, to the extent that such a  
10 loan is secured by property which is eligible for  
11 the Enterprise Zone Investment Credit. To determine  
12 the portion of a loan or loans that is secured by  
13 property eligible for a Section 201(f) investment  
14 credit to the borrower, the entire principal amount  
15 of the loan or loans between the taxpayer and the  
16 borrower should be divided into the basis of the  
17 Section 201(f) investment credit property which  
18 secures the loan or loans, using for this purpose  
19 the original basis of such property on the date that  
20 it was placed in service in the Enterprise Zone.  
21 The subtraction modification available to taxpayer  
22 in any year under this subsection shall be that  
23 portion of the total interest paid by the borrower  
24 with respect to such loan attributable to the  
25 eligible property as calculated under the previous  
26 sentence;

27 (M-1) For any taxpayer that is a financial  
28 organization within the meaning of Section 304(c) of  
29 this Act, an amount included in such total as  
30 interest income from a loan or loans made by such  
31 taxpayer to a borrower, to the extent that such a  
32 loan is secured by property which is eligible for  
33 the High Impact Business Investment Credit. To  
34 determine the portion of a loan or loans that is

1 secured by property eligible for a Section 201(h)  
2 investment credit to the borrower, the entire  
3 principal amount of the loan or loans between the  
4 taxpayer and the borrower should be divided into the  
5 basis of the Section 201(h) investment credit  
6 property which secures the loan or loans, using for  
7 this purpose the original basis of such property on  
8 the date that it was placed in service in a  
9 federally designated Foreign Trade Zone or Sub-Zone  
10 located in Illinois. No taxpayer that is eligible  
11 for the deduction provided in subparagraph (M) of  
12 paragraph (2) of this subsection shall be eligible  
13 for the deduction provided under this subparagraph  
14 (M-1). The subtraction modification available to  
15 taxpayers in any year under this subsection shall be  
16 that portion of the total interest paid by the  
17 borrower with respect to such loan attributable to  
18 the eligible property as calculated under the  
19 previous sentence;

20 (N) Two times any contribution made during the  
21 taxable year to a designated zone organization to  
22 the extent that the contribution (i) qualifies as a  
23 charitable contribution under subsection (c) of  
24 Section 170 of the Internal Revenue Code and (ii)  
25 must, by its terms, be used for a project approved  
26 by the Department of Commerce and Community Affairs  
27 under Section 11 of the Illinois Enterprise Zone  
28 Act;

29 (O) An amount equal to: (i) 85% for taxable  
30 years ending on or before December 31, 1992, or, a  
31 percentage equal to the percentage allowable under  
32 Section 243(a)(1) of the Internal Revenue Code of  
33 1986 for taxable years ending after December 31,  
34 1992, of the amount by which dividends included in

1 taxable income and received from a corporation that  
2 is not created or organized under the laws of the  
3 United States or any state or political subdivision  
4 thereof, including, for taxable years ending on or  
5 after December 31, 1988, dividends received or  
6 deemed received or paid or deemed paid under  
7 Sections 951 through 964 of the Internal Revenue  
8 Code, exceed the amount of the modification provided  
9 under subparagraph (G) of paragraph (2) of this  
10 subsection (b) which is related to such dividends;  
11 plus (ii) 100% of the amount by which dividends,  
12 included in taxable income and received, including,  
13 for taxable years ending on or after December 31,  
14 1988, dividends received or deemed received or paid  
15 or deemed paid under Sections 951 through 964 of the  
16 Internal Revenue Code, from any such corporation  
17 specified in clause (i) that would but for the  
18 provisions of Section 1504 (b) (3) of the Internal  
19 Revenue Code be treated as a member of the  
20 affiliated group which includes the dividend  
21 recipient, exceed the amount of the modification  
22 provided under subparagraph (G) of paragraph (2) of  
23 this subsection (b) which is related to such  
24 dividends;

25 (P) An amount equal to any contribution made  
26 to a job training project established pursuant to  
27 the Tax Increment Allocation Redevelopment Act;

28 (Q) An amount equal to the amount of the  
29 deduction used to compute the federal income tax  
30 credit for restoration of substantial amounts held  
31 under claim of right for the taxable year pursuant  
32 to Section 1341 of the Internal Revenue Code of  
33 1986;

34 (R) In the case of an attorney-in-fact with

1 respect to whom an interinsurer or a reciprocal  
2 insurer has made the election under Section 835 of  
3 the Internal Revenue Code, 26 U.S.C. 835, an amount  
4 equal to the excess, if any, of the amounts paid or  
5 incurred by that interinsurer or reciprocal insurer  
6 in the taxable year to the attorney-in-fact over the  
7 deduction allowed to that interinsurer or reciprocal  
8 insurer with respect to the attorney-in-fact under  
9 Section 835(b) of the Internal Revenue Code for the  
10 taxable year; and

11 (S) For taxable years ending on or after  
12 December 31, 1997, in the case of a Subchapter S  
13 corporation, an amount equal to all amounts of  
14 income allocable to a shareholder subject to the  
15 Personal Property Tax Replacement Income Tax imposed  
16 by subsections (c) and (d) of Section 201 of this  
17 Act, including amounts allocable to organizations  
18 exempt from federal income tax by reason of Section  
19 501(a) of the Internal Revenue Code. This  
20 subparagraph (S) is exempt from the provisions of  
21 Section 250.

22 (3) Special rule. For purposes of paragraph (2)  
23 (A), "gross income" in the case of a life insurance  
24 company, for tax years ending on and after December 31,  
25 1994, shall mean the gross investment income for the  
26 taxable year.

27 (c) Trusts and estates.

28 (1) In general. In the case of a trust or estate,  
29 base income means an amount equal to the taxpayer's  
30 taxable income for the taxable year as modified by  
31 paragraph (2).

32 (2) Modifications. Subject to the provisions of  
33 paragraph (3), the taxable income referred to in  
34 paragraph (1) shall be modified by adding thereto the sum

1 of the following amounts:

2 (A) An amount equal to all amounts paid or  
3 accrued to the taxpayer as interest or dividends  
4 during the taxable year to the extent excluded from  
5 gross income in the computation of taxable income;

6 (B) In the case of (i) an estate, \$600; (ii) a  
7 trust which, under its governing instrument, is  
8 required to distribute all of its income currently,  
9 \$300; and (iii) any other trust, \$100, but in each  
10 such case, only to the extent such amount was  
11 deducted in the computation of taxable income;

12 (C) An amount equal to the amount of tax  
13 imposed by this Act to the extent deducted from  
14 gross income in the computation of taxable income  
15 for the taxable year;

16 (D) The amount of any net operating loss  
17 deduction taken in arriving at taxable income, other  
18 than a net operating loss carried forward from a  
19 taxable year ending prior to December 31, 1986;

20 (E) For taxable years in which a net operating  
21 loss carryback or carryforward from a taxable year  
22 ending prior to December 31, 1986 is an element of  
23 taxable income under paragraph (1) of subsection (e)  
24 or subparagraph (E) of paragraph (2) of subsection  
25 (e), the amount by which addition modifications  
26 other than those provided by this subparagraph (E)  
27 exceeded subtraction modifications in such taxable  
28 year, with the following limitations applied in the  
29 order that they are listed:

30 (i) the addition modification relating to  
31 the net operating loss carried back or forward  
32 to the taxable year from any taxable year  
33 ending prior to December 31, 1986 shall be  
34 reduced by the amount of addition modification

1 under this subparagraph (E) which related to  
2 that net operating loss and which was taken  
3 into account in calculating the base income of  
4 an earlier taxable year, and

5 (ii) the addition modification relating  
6 to the net operating loss carried back or  
7 forward to the taxable year from any taxable  
8 year ending prior to December 31, 1986 shall  
9 not exceed the amount of such carryback or  
10 carryforward;

11 For taxable years in which there is a net  
12 operating loss carryback or carryforward from more  
13 than one other taxable year ending prior to December  
14 31, 1986, the addition modification provided in this  
15 subparagraph (E) shall be the sum of the amounts  
16 computed independently under the preceding  
17 provisions of this subparagraph (E) for each such  
18 taxable year;

19 (F) For taxable years ending on or after  
20 January 1, 1989, an amount equal to the tax deducted  
21 pursuant to Section 164 of the Internal Revenue Code  
22 if the trust or estate is claiming the same tax for  
23 purposes of the Illinois foreign tax credit under  
24 Section 601 of this Act;

25 (G) An amount equal to the amount of the  
26 capital gain deduction allowable under the Internal  
27 Revenue Code, to the extent deducted from gross  
28 income in the computation of taxable income; and

29 (G-5) For taxable years ending after December  
30 31, 1997, an amount equal to any eligible  
31 remediation costs that the trust or estate deducted  
32 in computing adjusted gross income and for which the  
33 trust or estate claims a credit under subsection (1)  
34 of Section 201;

1 and by deducting from the total so obtained the sum of  
2 the following amounts:

3 (H) An amount equal to all amounts included in  
4 such total pursuant to the provisions of Sections  
5 402(a), 402(c), 403(a), 403(b), 406(a), 407(a) and  
6 408 of the Internal Revenue Code or included in such  
7 total as distributions under the provisions of any  
8 retirement or disability plan for employees of any  
9 governmental agency or unit, or retirement payments  
10 to retired partners, which payments are excluded in  
11 computing net earnings from self employment by  
12 Section 1402 of the Internal Revenue Code and  
13 regulations adopted pursuant thereto;

14 (I) The valuation limitation amount;

15 (J) An amount equal to the amount of any tax  
16 imposed by this Act which was refunded to the  
17 taxpayer and included in such total for the taxable  
18 year;

19 (K) An amount equal to all amounts included in  
20 taxable income as modified by subparagraphs (A),  
21 (B), (C), (D), (E), (F) and (G) which are exempt  
22 from taxation by this State either by reason of its  
23 statutes or Constitution or by reason of the  
24 Constitution, treaties or statutes of the United  
25 States; provided that, in the case of any statute of  
26 this State that exempts income derived from bonds or  
27 other obligations from the tax imposed under this  
28 Act, the amount exempted shall be the interest net  
29 of bond premium amortization;

30 (L) With the exception of any amounts  
31 subtracted under subparagraph (K), an amount equal  
32 to the sum of all amounts disallowed as deductions  
33 by (i) Sections 171(a) (2) and 265(a)(2) of the  
34 Internal Revenue Code, as now or hereafter amended,

1 and all amounts of expenses allocable to interest  
2 and disallowed as deductions by Section 265(1) of  
3 the Internal Revenue Code of 1954, as now or  
4 hereafter amended; and (ii) for taxable years ending  
5 on or after August 13, 1999, Sections 171(a)(2),  
6 265, 280C, and 832(b)(5)(B)(i) of the Internal  
7 Revenue Code; the provisions of this subparagraph  
8 are exempt from the provisions of Section 250;

9 (M) An amount equal to those dividends  
10 included in such total which were paid by a  
11 corporation which conducts business operations in an  
12 Enterprise Zone or zones created under the Illinois  
13 Enterprise Zone Act and conducts substantially all  
14 of its operations in an Enterprise Zone or Zones;

15 (N) An amount equal to any contribution made  
16 to a job training project established pursuant to  
17 the Tax Increment Allocation Redevelopment Act;

18 (O) An amount equal to those dividends  
19 included in such total that were paid by a  
20 corporation that conducts business operations in a  
21 federally designated Foreign Trade Zone or Sub-Zone  
22 and that is designated a High Impact Business  
23 located in Illinois; provided that dividends  
24 eligible for the deduction provided in subparagraph  
25 (M) of paragraph (2) of this subsection shall not be  
26 eligible for the deduction provided under this  
27 subparagraph (O);

28 (P) An amount equal to the amount of the  
29 deduction used to compute the federal income tax  
30 credit for restoration of substantial amounts held  
31 under claim of right for the taxable year pursuant  
32 to Section 1341 of the Internal Revenue Code of  
33 1986; and

34 (Q) For taxable year 1999 and thereafter, an

1 amount equal to the amount of any (i) distributions,  
2 to the extent includible in gross income for federal  
3 income tax purposes, made to the taxpayer because of  
4 his or her status as a victim of persecution for  
5 racial or religious reasons by Nazi Germany or any  
6 other Axis regime or as an heir of the victim and  
7 (ii) items of income, to the extent includible in  
8 gross income for federal income tax purposes,  
9 attributable to, derived from or in any way related  
10 to assets stolen from, hidden from, or otherwise  
11 lost to a victim of persecution for racial or  
12 religious reasons by Nazi Germany or any other Axis  
13 regime immediately prior to, during, and immediately  
14 after World War II, including, but not limited to,  
15 interest on the proceeds receivable as insurance  
16 under policies issued to a victim of persecution for  
17 racial or religious reasons by Nazi Germany or any  
18 other Axis regime by European insurance companies  
19 immediately prior to and during World War II;  
20 provided, however, this subtraction from federal  
21 adjusted gross income does not apply to assets  
22 acquired with such assets or with the proceeds from  
23 the sale of such assets; provided, further, this  
24 paragraph shall only apply to a taxpayer who was the  
25 first recipient of such assets after their recovery  
26 and who is a victim of persecution for racial or  
27 religious reasons by Nazi Germany or any other Axis  
28 regime or as an heir of the victim. The amount of  
29 and the eligibility for any public assistance,  
30 benefit, or similar entitlement is not affected by  
31 the inclusion of items (i) and (ii) of this  
32 paragraph in gross income for federal income tax  
33 purposes. This paragraph is exempt from the  
34 provisions of Section 250.

1           (3) Limitation. The amount of any modification  
2 otherwise required under this subsection shall, under  
3 regulations prescribed by the Department, be adjusted by  
4 any amounts included therein which were properly paid,  
5 credited, or required to be distributed, or permanently  
6 set aside for charitable purposes pursuant to Internal  
7 Revenue Code Section 642(c) during the taxable year.

8           (d) Partnerships.

9           (1) In general. In the case of a partnership, base  
10 income means an amount equal to the taxpayer's taxable  
11 income for the taxable year as modified by paragraph (2).

12           (2) Modifications. The taxable income referred to  
13 in paragraph (1) shall be modified by adding thereto the  
14 sum of the following amounts:

15                   (A) An amount equal to all amounts paid or  
16 accrued to the taxpayer as interest or dividends  
17 during the taxable year to the extent excluded from  
18 gross income in the computation of taxable income;

19                   (B) An amount equal to the amount of tax  
20 imposed by this Act to the extent deducted from  
21 gross income for the taxable year;

22                   (C) The amount of deductions allowed to the  
23 partnership pursuant to Section 707 (c) of the  
24 Internal Revenue Code in calculating its taxable  
25 income; and

26                   (D) An amount equal to the amount of the  
27 capital gain deduction allowable under the Internal  
28 Revenue Code, to the extent deducted from gross  
29 income in the computation of taxable income;

30 and by deducting from the total so obtained the following  
31 amounts:

32                   (E) The valuation limitation amount;

33                   (F) An amount equal to the amount of any tax  
34 imposed by this Act which was refunded to the

1 taxpayer and included in such total for the taxable  
2 year;

3 (G) An amount equal to all amounts included in  
4 taxable income as modified by subparagraphs (A),  
5 (B), (C) and (D) which are exempt from taxation by  
6 this State either by reason of its statutes or  
7 Constitution or by reason of the Constitution,  
8 treaties or statutes of the United States; provided  
9 that, in the case of any statute of this State that  
10 exempts income derived from bonds or other  
11 obligations from the tax imposed under this Act, the  
12 amount exempted shall be the interest net of bond  
13 premium amortization;

14 (H) Any income of the partnership which  
15 constitutes personal service income as defined in  
16 Section 1348 (b) (1) of the Internal Revenue Code  
17 (as in effect December 31, 1981) or a reasonable  
18 allowance for compensation paid or accrued for  
19 services rendered by partners to the partnership,  
20 whichever is greater;

21 (I) An amount equal to all amounts of income  
22 distributable to an entity subject to the Personal  
23 Property Tax Replacement Income Tax imposed by  
24 subsections (c) and (d) of Section 201 of this Act  
25 including amounts distributable to organizations  
26 exempt from federal income tax by reason of Section  
27 501(a) of the Internal Revenue Code;

28 (J) With the exception of any amounts  
29 subtracted under subparagraph (G), an amount equal  
30 to the sum of all amounts disallowed as deductions  
31 by (i) Sections 171(a) (2), and 265(2) of the  
32 Internal Revenue Code of 1954, as now or hereafter  
33 amended, and all amounts of expenses allocable to  
34 interest and disallowed as deductions by Section

1 265(1) of the Internal Revenue Code, as now or  
2 hereafter amended; and (ii) for taxable years ending  
3 on or after August 13, 1999, Sections 171(a)(2),  
4 265, 280C, and 832(b)(5)(B)(i) of the Internal  
5 Revenue Code; the provisions of this subparagraph  
6 are exempt from the provisions of Section 250;

7 (K) An amount equal to those dividends  
8 included in such total which were paid by a  
9 corporation which conducts business operations in an  
10 Enterprise Zone or zones created under the Illinois  
11 Enterprise Zone Act, enacted by the 82nd General  
12 Assembly, and which does not conduct such operations  
13 other than in an Enterprise Zone or Zones;

14 (L) An amount equal to any contribution made  
15 to a job training project established pursuant to  
16 the Real Property Tax Increment Allocation  
17 Redevelopment Act;

18 (M) An amount equal to those dividends  
19 included in such total that were paid by a  
20 corporation that conducts business operations in a  
21 federally designated Foreign Trade Zone or Sub-Zone  
22 and that is designated a High Impact Business  
23 located in Illinois; provided that dividends  
24 eligible for the deduction provided in subparagraph  
25 (K) of paragraph (2) of this subsection shall not be  
26 eligible for the deduction provided under this  
27 subparagraph (M); and

28 (N) An amount equal to the amount of the  
29 deduction used to compute the federal income tax  
30 credit for restoration of substantial amounts held  
31 under claim of right for the taxable year pursuant  
32 to Section 1341 of the Internal Revenue Code of  
33 1986.

34 (e) Gross income; adjusted gross income; taxable income.

1           (1) In general. Subject to the provisions of  
2 paragraph (2) and subsection (b) (3), for purposes of  
3 this Section and Section 803(e), a taxpayer's gross  
4 income, adjusted gross income, or taxable income for the  
5 taxable year shall mean the amount of gross income,  
6 adjusted gross income or taxable income properly  
7 reportable for federal income tax purposes for the  
8 taxable year under the provisions of the Internal Revenue  
9 Code. Taxable income may be less than zero. However, for  
10 taxable years ending on or after December 31, 1986, net  
11 operating loss carryforwards from taxable years ending  
12 prior to December 31, 1986, may not exceed the sum of  
13 federal taxable income for the taxable year before net  
14 operating loss deduction, plus the excess of addition  
15 modifications over subtraction modifications for the  
16 taxable year. For taxable years ending prior to December  
17 31, 1986, taxable income may never be an amount in excess  
18 of the net operating loss for the taxable year as defined  
19 in subsections (c) and (d) of Section 172 of the Internal  
20 Revenue Code, provided that when taxable income of a  
21 corporation (other than a Subchapter S corporation),  
22 trust, or estate is less than zero and addition  
23 modifications, other than those provided by subparagraph  
24 (E) of paragraph (2) of subsection (b) for corporations  
25 or subparagraph (E) of paragraph (2) of subsection (c)  
26 for trusts and estates, exceed subtraction modifications,  
27 an addition modification must be made under those  
28 subparagraphs for any other taxable year to which the  
29 taxable income less than zero (net operating loss) is  
30 applied under Section 172 of the Internal Revenue Code or  
31 under subparagraph (E) of paragraph (2) of this  
32 subsection (e) applied in conjunction with Section 172 of  
33 the Internal Revenue Code.

34           (2) Special rule. For purposes of paragraph (1) of

1       this subsection, the taxable income properly reportable  
2       for federal income tax purposes shall mean:

3               (A) Certain life insurance companies. In the  
4       case of a life insurance company subject to the tax  
5       imposed by Section 801 of the Internal Revenue Code,  
6       life insurance company taxable income, plus the  
7       amount of distribution from pre-1984 policyholder  
8       surplus accounts as calculated under Section 815a of  
9       the Internal Revenue Code;

10              (B) Certain other insurance companies. In the  
11       case of mutual insurance companies subject to the  
12       tax imposed by Section 831 of the Internal Revenue  
13       Code, insurance company taxable income;

14              (C) Regulated investment companies. In the  
15       case of a regulated investment company subject to  
16       the tax imposed by Section 852 of the Internal  
17       Revenue Code, investment company taxable income;

18              (D) Real estate investment trusts. In the  
19       case of a real estate investment trust subject to  
20       the tax imposed by Section 857 of the Internal  
21       Revenue Code, real estate investment trust taxable  
22       income;

23              (E) Consolidated corporations. In the case of  
24       a corporation which is a member of an affiliated  
25       group of corporations filing a consolidated income  
26       tax return for the taxable year for federal income  
27       tax purposes, taxable income determined as if such  
28       corporation had filed a separate return for federal  
29       income tax purposes for the taxable year and each  
30       preceding taxable year for which it was a member of  
31       an affiliated group. For purposes of this  
32       subparagraph, the taxpayer's separate taxable income  
33       shall be determined as if the election provided by  
34       Section 243(b) (2) of the Internal Revenue Code had

1           been in effect for all such years;

2                   (F) Cooperatives.       In the case of a  
3           cooperative corporation or association, the taxable  
4           income of such organization determined in accordance  
5           with the provisions of Section 1381 through 1388 of  
6           the Internal Revenue Code;

7                   (G) Subchapter S corporations.   In the case  
8           of: (i) a Subchapter S corporation for which there  
9           is in effect an election for the taxable year under  
10          Section 1362 of the Internal Revenue Code, the  
11          taxable income of such corporation determined in  
12          accordance with Section 1363(b) of the Internal  
13          Revenue Code, except that taxable income shall take  
14          into account those items which are required by  
15          Section 1363(b)(1) of the Internal Revenue Code to  
16          be separately stated; and (ii) a Subchapter S  
17          corporation for which there is in effect a federal  
18          election to opt out of the provisions of the  
19          Subchapter S Revision Act of 1982 and have applied  
20          instead the prior federal Subchapter S rules as in  
21          effect on July 1, 1982, the taxable income of such  
22          corporation determined in accordance with the  
23          federal Subchapter S rules as in effect on July 1,  
24          1982; and

25                   (H) Partnerships.       In the case of a  
26          partnership, taxable income determined in accordance  
27          with Section 703 of the Internal Revenue Code,  
28          except that taxable income shall take into account  
29          those items which are required by Section 703(a)(1)  
30          to be separately stated but which would be taken  
31          into account by an individual in calculating his  
32          taxable income.

33           (f) Valuation limitation amount.

34                   (1) In general.   The valuation limitation amount

1 referred to in subsections (a) (2) (G), (c) (2) (I) and  
2 (d)(2) (E) is an amount equal to:

3 (A) The sum of the pre-August 1, 1969  
4 appreciation amounts (to the extent consisting of  
5 gain reportable under the provisions of Section 1245  
6 or 1250 of the Internal Revenue Code) for all  
7 property in respect of which such gain was reported  
8 for the taxable year; plus

9 (B) The lesser of (i) the sum of the  
10 pre-August 1, 1969 appreciation amounts (to the  
11 extent consisting of capital gain) for all property  
12 in respect of which such gain was reported for  
13 federal income tax purposes for the taxable year, or  
14 (ii) the net capital gain for the taxable year,  
15 reduced in either case by any amount of such gain  
16 included in the amount determined under subsection  
17 (a) (2) (F) or (c) (2) (H).

18 (2) Pre-August 1, 1969 appreciation amount.

19 (A) If the fair market value of property  
20 referred to in paragraph (1) was readily  
21 ascertainable on August 1, 1969, the pre-August 1,  
22 1969 appreciation amount for such property is the  
23 lesser of (i) the excess of such fair market value  
24 over the taxpayer's basis (for determining gain) for  
25 such property on that date (determined under the  
26 Internal Revenue Code as in effect on that date), or  
27 (ii) the total gain realized and reportable for  
28 federal income tax purposes in respect of the sale,  
29 exchange or other disposition of such property.

30 (B) If the fair market value of property  
31 referred to in paragraph (1) was not readily  
32 ascertainable on August 1, 1969, the pre-August 1,  
33 1969 appreciation amount for such property is that  
34 amount which bears the same ratio to the total gain

1 reported in respect of the property for federal  
2 income tax purposes for the taxable year, as the  
3 number of full calendar months in that part of the  
4 taxpayer's holding period for the property ending  
5 July 31, 1969 bears to the number of full calendar  
6 months in the taxpayer's entire holding period for  
7 the property.

8 (C) The Department shall prescribe such  
9 regulations as may be necessary to carry out the  
10 purposes of this paragraph.

11 (g) Double deductions. Unless specifically provided  
12 otherwise, nothing in this Section shall permit the same item  
13 to be deducted more than once.

14 (h) Legislative intention. Except as expressly provided  
15 by this Section there shall be no modifications or  
16 limitations on the amounts of income, gain, loss or deduction  
17 taken into account in determining gross income, adjusted  
18 gross income or taxable income for federal income tax  
19 purposes for the taxable year, or in the amount of such items  
20 entering into the computation of base income and net income  
21 under this Act for such taxable year, whether in respect of  
22 property values as of August 1, 1969 or otherwise.

23 (Source: P.A. 91-192, eff. 7-20-99; 91-205, eff. 7-20-99;  
24 91-357, eff. 7-29-99; 91-541, eff. 8-13-99; 91-676, eff.  
25 12-23-99; 91-845, eff. 6-22-00; 91-913, eff. 1-1-01; 92-16,  
26 eff. 6-28-01; 92-244, eff. 8-3-01; 92-439, eff. 8-17-01;  
27 revised 9-21-01.)

28 Section 99. Effective date. This Act takes effect upon  
29 becoming law.